

**OPENING STATEMENT OF
CHAIRMAN SPENCER BACHUS ON
DEPOSIT INSURANCE REFORM
OCTOBER 17, 2001**

The Subcommittee meets today for its third hearing this year on reforming the deposit insurance system. We are delighted to have with us today the new Chairman of the FDIC, Don Powell, who assumed his responsibilities at the agency less than two months ago after a distinguished career in the banking industry in Texas. Chairman Powell will provide us with the FDIC's updated recommendations on how to reform a system that has served our country well over the years, but is in need of some retooling for the 21st century marketplace.

Shortly after the Subcommittee's last hearing on deposit insurance reform in late July, the Office of Thrift Supervision announced the failure of Superior Bank, a Chicago-based thrift with assets of \$2.3 billion and a heavy concentration of subprime loans. Early estimates are that Superior's failure could end up costing the Savings Association Insurance Fund (SAIF) upwards of \$500 million, which would in turn lower the SAIF's ratio of reserves to insured deposits from its current level of 1.43% to 1.35% or even lower.

In and of itself, the Superior failure is hardly cause for panic. Both the SAIF and its banking industry counterpart, the Bank Insurance Fund (BIF), remain extremely well-capitalized, and the banking and thrift industries appear well-positioned to weather any significant downturn in the economy. Nevertheless, such a precipitous drop in the SAIF's reserve ratio – coinciding with recent declines in the BIF ratio – highlights the need for Congress to consider reforms before the ratios fall below levels which, under the current system, would trigger sizable premium assessments on all institutions.

As this Committee begins in earnest to consider legislative proposals to address deficiencies in the current deposit insurance system, I can think of no government official better qualified to provide us with wise counsel than our first witness at today's hearing. With more than 30 years of experience in the financial services industry, including his recent tenure as the President and CEO of The First National Bank of Amarillo, Chairman Powell brings to his new position a "real world" understanding of the industry he is now charged with overseeing that is truly refreshing.

I had the pleasure of spending time with Chairman Powell when he visited my office last month, and I found him to be exceedingly well-versed on the issue of deposit insurance reform, as well as extremely sensitive to the challenges faced by America's small community banks. Chairman Powell

pledged to work closely with the Committee – both in the context of deposit insurance reform and in other areas – to ensure that the legislative and regulatory initiatives we pursue here in Washington make sense when viewed from the perspective of a small-town banker and his customers.

In the area of deposit insurance reform, I have been particularly encouraged by Chairman Powell's endorsement of the principle of indexing coverage levels to inflation, and increasing coverage for individual retirement accounts. In my discussions with him, Chairman Powell has also expressed a willingness to work with the Committee in exploring possible changes in the system for insuring municipal deposits. If we are truly serious about addressing the liquidity problems facing small community banks across America, we should be doing everything possible to encourage local government agencies to keep their receipts in the community by depositing them at local banks.

Currently, many States require banks that maintain municipal deposits to pledge collateral against the portion of such deposits that exceed \$100,000 and are therefore not insured by the FDIC. This not only makes it difficult for small banks to compete for those deposits with larger institutions, but it also ties up resources that could otherwise be devoted to community development and other lending activities. This is an issue I look forward to discussing further with Chairman Powell as the deposit insurance reform debate moves forward.

Let me close by again extending a warm welcome to Chairman Powell – who is testifying for the first time before our Committee – and to our distinguished witnesses on the second panel.

I now recognize the Ranking Member, Ms. Waters, for any opening statement she wishes to make.